TAXATION FOR ECONOMIC DEVELOPMENT:

A CASE STUDY OF

THE REPUBLIC OF SIERRA LEONE

1966-1972

A THESIS

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CHAPTER I

INTRODUCTION

The vital role which taxation plays in any program for economic development needs no emphasis because it acts both as a mechanism to mobilize resources for the public sector and an instrument for control over the private sector.

Taxation in underdeveloped countries, as well as developed countries, is not only a means of providing public savings and of correcting imperfections in the price system but is also an effective means of providing revenue for development. The role of taxation in achieving economic development, therefore, is sometimes considered even in the underdeveloped countries to be as important as its role in achieving economic equality. The need for greater revenue, so badly felt in almost all underdeveloped countries, is a reflection of the desire to increase the government's control over real resources. But this question needs special attention since many economists foresee a conflict in the degree to which these two goals can be achieved. A conflict well expressed by W. Arthur Lewis is that:

> The less developed countries have awakened into a century where everybody wishes to ride two horses simultaneously, the horse of economic equality, and the horse of economic development.[1]

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[1] W. Arthur Lewis, The Theory of Economic Growth (Homewood, Illinois: Richard D. Irwin, Inc., 1955), pp. 379-380.

Therefore, Sierra Leone has chosen the horse of economic development through taxation as Professor R. J. Chelliah said,

> . . . taxation is thus by far the most important source of development finance, both for the direct contribution which it can make, and for its indirect effects on control and on incentive and in narrowing the gap in available incomes.[1]

Among the sources of revenue, taxation is unparallel in maneuverability and effectiveness as a means of control.

It is a well known fact that in the Republic of Sierra Leone, there is a constant pressure to increase spending by the public sector and to generate substantial surplus, both of which can be transferred to development funds well in time to compel the government to appraise critically their existing sources of revenue. Higher revenue practically means higher taxation, although other sources of current revenue are not altogether unimportant and are by no means to be neglected; and considered to be by far the largest part of total current revenue derived from taxation.

As an underdeveloped country that is exploring new sources of revenue during the period of their National Development Plan, Sierra Leone will require a sound and productive tax system. To be classed sound and productive, the tax system should firstly be well administered in order that the correct amount of tax dues should be promptly and impartially collected. Secondly, there should be a broadening of the tax base.

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[1]R. J. Chelliah, Fiscal Policy in Underdeveloped Countries (London: George Allen and Unwin, 1960), p. 71.

It should be kept in mind that by providing a sound and productive tax system, that there is a risk of damaging the economy by imposing excessive burdens on the consumer if the tax system does not fit the conditions of the nation. For example, some taxes discourage production in that there is a theoretical risk of overtaxing the economy. Moreover, if the Sierra Leonean government fixes a higher rate of taxation, it will create the problem of tax evasion, smuggling, and capital flight.

However, the problem of how much taxes the government should impose remains to be answered. The answer could be that since taxes are paid compulsively, the government should tax every type of the national income plus taxation of all privately held national wealth. The idea that taxes must be limited have been thought of as obvious because the base of all taxes is clearly limited by the size of the Gross Domestic Product and the National Wealth of Sierra Leone. Therefore, the taxable population would not even starve if taxation did reach such heights because of the nature of the government's expenditure. We are faced with the problem of incentive and certainty, in that the government would be thinking that any tax proposal, higher or lower, would be rejected by the public.

Since the government hopes for a balanced budget, the level of taxation is determined by the level of government expenditure. The neo-orthodox economist may say that the level of taxation should be determined so that the nation can achieve full employment and a stable price level. But critics of neo-orthodox economists take the stand that tax capacity does not exist.

If there is a higher tax rate, there will be a creation of problems such as tax dodging. Then the government would anticipate taking measures against these tax dodgers and complications will arise resulting in a tax increase which in turn would offset the high cost incurred by the administrative department of taxation.

The nature of the tax burden in an economy like Sierra Leone's, where some and perhaps most of the markets are other than perfectly competitive, is characteristic of the traditional principle "according to the ability to pay" because of the inequality of income in existence. But even those who favor this principle will have to take into account the practical limitations imposed, such as discentive effects, lack of tax-payer compliance, and problems of administrative feasibility. Here again we are confronted with a conflicting idea to introduce tax incentive which is aimmed at promoting economic growth. Such incentive can hardly be effective without compromising to some degree the idea of a fair distribution of burdens.

Purpose of the Study

The problem of taxation in Sierra Leone in conjunction with economic development should be considered from two conflicting viewpoints, those of incentives and of resources. There are those who believe that it is a lack of adequate incentives which is mainly responsible for insufficient growth and investment. They, of course, are concerned with tax reform and the granting of additional concessions without any thought as to what could happen to the public revenue. On the other hand, those who believe that insufficient growth and investment are mainly consequences of the lack of resources are primarily concerned with increasing the revenue available for investment through additional taxation, even if it is at the expense of disincentive effects.

It is the opinion of the author that the idea of incentives has been misplaced with the exception of some cases in which tax concessions have been granted to foreigners, which may have increased the inflow of international capital, therefore, it is the shortage of revenue and not inadequate incentives which limit the pace of economic development in Sierra Leone.

Irrespective of the political ideology of a nation, public revenue from the point of view of accelerated economic development requires efficient and steady expanding provisions. Since non-revenue yielding services like education, communication systems and health services, which are financed out of the government's revenue, these services should be provided for the people by the government.

Taxation in Sierra Leone should be judged from the revenue aspect, and also as an instrument for increasing savings for capital formation out of domestic sources by reducing the volume of spending by consumers who make it possible for the resources of the nation to be devoted to the building of capital assets. If consumption is unchecked, consumer spending will increase prices causing inflation. Some economists believe that inflation in this circumstance will be successful in setting free the resources for capital development . The author feels that this would be the most ineffective measure because a good percentage of the enforced reduction in consumption will be converted to the consumption of luxury goods by the profit earning class. Inflation, therefore, is a temporary instrument for mobilizing resources, in that once prices rise, the wages will rise too, as well as an acceleration in the rate of price-inflation without securing any further savings. In view of all these facts, the Sierra Leone government will be forced to evaluate and appraise their existing revenue sources, the need to mobilize more resources, and to exercise the strongest economy in public expenditure.

Therefore, the objective of this study is to present an analytical framework of the yield of four important taxes in Sierra Leone, and to determine the role of taxation as an essential source of revenue for economic development since the socio-economic development of the nation is the sole responsibility of the government. Also, since the government derives most of its revenue from taxation, the study will emphasize the importance of these four taxes.

Limitations of the Study

This study is limited to the economic development of the Republic of Sierra Leone. The discussion is based on the years between 1966 and 1972. Four sources of revenue were chosen: (1) import taxes, (2) export taxes, (3) personal income taxes, (4) corporate taxes. Import and export commodities are particularly selected because of their importance in terms of revenue yield.

Taxation for industrial development will not be included in the study because only fifty percent of industrial development is derived from the private sector of the economy. Therefore, social services such as education, health, and housing will be discussed because they are financed by the government.

Abbreviations

G.D.O. - Government Diamond Office
Le - leones (currency used in Sierra Leone)
S.D.R. - Special Drawing Rights
S.L.P.M.B. - Sierra Leone Produce Marketing Board
S.L.S.T. Ltd. - Sierra Leone Selection Trust Limited

Notations

A - allowances
A_r - total tax revenue
C - revenue from all other taxes
C_i - revenue from individual income taxes
C_l - revenue from licenses
C_p - revenue from import duties
C_r - revenue from corporate taxes
C_u - undistributed profit of corporate bodies
C_x - revenue from excise duties
D - value of excisable goods consumed
E_r - revenue from export taxes
E_x - all other exports
K - tax rate schedule
M_c - coffee exports
M_d - diamond exports
M_k - palm kernel exports
M_o - cocoa exports
O - composition of import
P - price level
P_o - profit
R - taxable income of employees and individuals
T_c - revenue from coffee export taxes
T_d - revenue from diamond export taxes
T_k - revenue from palm kernel export taxes
T_o - revenue from cocoa export taxes
V - value
V_o - volume
X - diamond, cocoa, palm kernel, and coffee exports
X_o - proportion of residents' to non-residents' income
Y - monetary gross domestic product
Y_d - pattern of income distribution by income group
Z - retained imports

CHAPTER II

THE ECONOMY AND THE TAX STRUCTURE OF SIERRA LEONE

General Characteristics of the Economy

All economic indicators show clearly that the economy of Sierra Leone achieved a modest growth rate between the years 1966 and 1970.

The major sectors which contributed to the modest growth of the economy were the agriculture, mining and manufacturing industries. The level of production rose steadily throughout the period, with a substantial increase in monetary income as a result of higher export receipts and wage settlements. This resulted in a rapid increase in imports to the extent that the country had a modest surplus of Le2.8 million in 1968 as well as in 1969.

The commercial banks credit to the private sector during this period also rose steadily, but there was an offsetting decline in credit to the government from the banking system.

Table 1 presents some of the essential factors in the change of money supply in the economy that had an important bearing on the characteristics of the economy between December, 1968 and December, 1969. It also shows the changes and the underlying factors to the money supply of the economy in 1969. There was an increase of Le3.9 million or 14.5 percent in 1969, or more specifically, there was a rise of Le1.5 million in demand deposits and a Le2.4 million increase in

TABLE 1

CHANGE IN MONEY SUPPLY AND UNDERLYING FACTORS
END OF DECEMBER 1968 TO THE
END OF DECEMBER 1969
(Money Amounts in Millions of Leones)

Composition		
Increase in demand deposits held by public. . . .		1.50
Increase in currency held by public		2.36
Total		3.86
Analysis		
External banking assets (net)		9.10
Private sector.		0.90
Commercial bank credit to private sector. . . .	1.57	
Time and savings deposits of private sector . .	-2.43	
Other liabilities and accounts (net) of commercial banks.	1.76	
Semi-government sector.		-0.78
Commercial bank credit to government corporation	-0.78	
Government sector		-4.91
Commercial bank holding of treasury bills and Sierra Leone government securities. . . .	-0.82	
Central bank holding of treasury bills and Sierra Leone government stock and promissory notes.	-2.53	
Government deposits with the banking system . .	-0.69	
Central bank's other liabilities and account (net)	-0.87	
Adjustments		-0.45
Net change.		3.86

Source: Bank of Sierra Leone, Annual Report and Statement of Accounts (England: BKT City Print Ltd., 1970), Table 13, p. 33.

currency in circulation causing an increase in money supply. Another factor that could be credited with the rapid advancement in money supply is the net external assets of the banking system, increasing the banking system's external assets by Le9.1 million. However, during the same period, the expansion of money supply was offset by credit to the government by the banking system.

The financial position of Sierra Leone during the period under review continued to improve as a result of the rise in money income and higher exports in the fiscal years 1968-1969 and 1969-1970. It was the large surplus generated during the fiscal year 1968-1969 which enabled the government to reduce its standing credit with the banking system in the fiscal year 1969-1970.

The first half of the fiscal year 1971-1972 showed a sharp drop in money supply. Two major factors for this decline are: (1) a drop of Le1.5 million in the net external assets of the banking system, and (2) a sharp increase of Le3.3 million in government cash balances. Another contributing factor according to the Bank of Sierra Leone was:

> . . . an increase of Le0.3 million in other liabilities and the net account of the Central Bank, and a marginal decrease in commercial banks' credit to government corporations.[1]

It should be noted here that the healthy expansion of the economy should not be limited only to the output and level of operation, but should be extended to the diversification of industries. With the aim to subsidize imports, industries like the feed mill factories, paper

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[1]Bank of Sierra Leone Research Department, Sierra Leone Monthly Economic Trends (Freetown: Bank of Sierra Leone, 1973), p. 4.

and packaging factories, salt factories, and a biscuit factory were established to meet domestic consumption, and a new oil refinery was put into operation.

With 70 percent of the working population engaged in subsistence agriculture, the government and the Sierra Leone Produce Marketing Board (S.L.P.M.B.) were concerned with the stabilization of income in the agricultural sector. The unpredictability of prices in the world market for agricultural products and the current gap that exists between the per capita income in the rural and urban areas was enough to provide the government grounds for its price stabilization policies introduced in 1969.

However, it is not just a question of stable income for 70 percent of the population that is engaged in agriculture, but a lasting increase in income which will contribute to structural changes and economic development. It is therefore, necessary that while a solution to the problem of increase in real and money income in the agricultural sector is undertaken, they also provide sufficient incentive to expand production for export. As Dr. V. K. R. V. Rao emphasizes in his speech during the Golden Jubilee Conference of the Indian Economic Association in New Delhi:

> It must also be emphasized that exports do not automatically emerge or grow with economic development and special efforts have to be made to see that a part of the additional production resulting from development becomes available for export.[1]

Therefore, with an increase in real and money income, and structural

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[1] V. K. R. V. Rao, "Export for Development," The Indian Economic Journal, XV (July, 1967), 285.

changes in the provincial land tenure system, a result could be a substantial increase in agricultural production.

The mining sector of the economy showed some significant features in the years between 1967 and 1969 as shown in Table 2, which reveals that new private investments during this period were quite modest with mining as the dominating venture. The level of mining in 1969 was significantly higher than past years, and only the production of iron ore was below the average level. In 1969 the total volume of diamond output increased by 26.6 percent above the 1968 level, and 24.2 percent over the 1967 level. For example in May of 1969 the total output of diamonds was 117,400 carats which was the highest monthly production in the history of Sierra Leone.

TABLE 2

MINING PRODUCTION, 1967-1969[a]

Minerals	Unit	1967	1968	1969	% Change 1968-1969
Diamonds (S.L.S.T.)	'000 carats	670.5	657.8	832.6	26.6
Iron ore	'000 tons	2,104.8	2,516.5	2,336.6	-7.1
Bauxite	'000 tons	336.5	414.9	446.6	7.6
Rutile	'000 tons	17.3	10.5	27.9	165.7
Alluvial diamonds	'000 carats	759.5	863.8	1,102.9	27.7

Source: Bank of Sierra Leone, Annual Report and Statement of Accounts (England: BKT City Print Ltd., 1970), Table 25, p. 56.

[a]Statistics and information provided to the Bank of Sierra by the Ministry of Lands, Mines and Labour and the Government Diamond Office.

Compared to the steady progress in diamond mining, the performance in the iron ore mining was disappointing, for production fell 7.1 percent in 1969 as compared to that of 1968. The cause of this decline was due to labor problems and the "hard rock" type of ore that was mined. Bauxite, rutile and alluvial diamonds continued to show steady progress. From 1968 until 1969, mining rose to 7.6, 165.7 and 77.7 respectively.

At this point, one is inclined to ask the question, "How can incentives provided to producers be strengthened in Sierra Leone?" One answer is that a certain measure of freedom should be given to exporters to use a part of the net additional foreign exchange resulting from these increased exports to import the goods and material required for their export industries. Therefore, it is necessary to rely on such a system to decentralize economic decisions to keep the economy's central decision-making from getting overloaded.

General Characteristics of the Tax Structure

This section does not survey in detail the characteristics of the tax structure in Sierra Leone, but examines it's general characteristics.

The tax structure in Sierra Leone, like that in any other under-developed country in Africa, is an example of a system transplanted from the colonial powers such as the complexity of the tax structure and the unnecessary requirement such as notarization and multiple copies of returns.

The tax structure should be administered in such a way that it will be productive. It is evident that within domestic financing for economic development, taxation will have to play an important part. Being an instrument of fiscal policy, taxation finds its basis within the so called "development rules."

Table 3 shows the major taxes and the revenue generated from 1966-1969. It is important to note that the revenue collected in the fiscal year 1968-1969 was Le51.7 million, and Le5.4 million more than the estimated revenue. This increase was due to many factors such as an increase by 18 percent in import duties and an increased export and excise duty which were 19.4 percent and 2.2 percent respectively.

There was also a substantial increase in direct taxes. During the fiscal year 1968-1969, there was a Le12.8 million revenue generated from direct taxes, an increase of Le1 million during the 1966-1967 and 1967-1968 fiscal years respectively.

In an underdeveloped country like Sierra Leone, indirect taxes are very progressive, and have the advantage of influencing the price mechanism and production, and to a large degree limit or stimulate consumption and production of a particular commodity. While direct taxes as a tool for fiscal policy will only over a longer period of time gain its importance as displayed in Tables 3 and 4, the major decline in indirect taxes for the fiscal year 1969-1970 was due to the decline in receipts from duty on minerals, fuels, and lubricants. The decline in duties, therefore, was due to the direct consequence of the operation of the Sierra Leone Oil Refinery and the low export level of agricultural products.

Furthermore, the tables show that over 90 percent of the revenue derived in 1969-1970 was from direct taxes. Personal income tax yield was Le2.5 million or 4.8 percent in 1969-1970, and company taxes rose from Le6.9 million in 1968-1969 to Le7 million in 1969-1970. There was also a sharp decline in import and export duties during this period.

TABLE 3

ACTUAL REVENUE BY MAJOR CATEGORIES
1966-1967 TO 1968-1969
(Money Amounts in Millions of Leones)[a]

Sources of Revenue	1966-67	1967-68	1968-69	Percentage Change over Previous Years 1967-68	1968-69
Total tax revenue 1967-68 1968-69	32.463	34.588	46.934	6.5	35.7
Indirect taxes of which:	24.459	23.984	34.082	-1.9	42.1
Import duties	19.318	18.749	24.962	-2.9	33.1
Export duties	2.808	2.605	4.321	-7.2	65.9
Excise duties	2.233	2.534	4.636	1.3	82.9
Other duties	0.100	0.096	.163	-4.0	69.8
Direct taxes of which:	8.004	10.604	12.852	3.2	21.2
Company	1.879	6.317	6.674	236.2	5.7
Personal income	3.130	4.122	4.355	31.7	5.7
Mining and others	2.995	.165	1.823	-9.4	398.8
Licenses, fees and receipts	2.046	2.161	2.267	5.6	4.9
Post and telecommunications	0.843	0.932	1.013	10.5	8.7
Receipts from investment funds	1.575	0.223	0.450	-85.8	101.8
Miscellaneous	1,046	1.144	1.011	9.4	-11.6
Total revenue	37.978	39.048	51.675	2.8	32.3

Source: Bank of Sierra Leone, Annual Report and Statement of Accounts (England: BKT City Print Ltd., 1970), Table 3, p. 14.

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[a]Statistics and information provided to the Bank of Sierra Leone by the Sierra Leone Treasury.

TABLE 4

CENTRAL GOVERNMENT REVENUE
1969-70 TO 1971-72
(Money Amounts in Millions of Leones)[a]

Sources of Revenue	1969-70	1970-71			1971-72
	Actuals	Budget Estimates	Revised Estimates	Provisional Actuals	Budget Estimates
Current revenue	56.6	51.0	53.5	55.8	51.7
Direct taxes	13.5	13.3	15.3	18.1	10.5
Company tax	8.5	6.9	6.0	8.1	7.1
Personal income tax	2.4	2.5	2.5	2.7	2.6
Mining companies	2.6	3.9	6.8	7.2	0.7
Indirect taxes	36.8	32.1	32.4	32.5	33.4
Import duties	22.7	19.4	19.2	19.1	19.7
Food	2.6	2.3	2.3	2.4	2.7
Drinks	1.1	1.2	1.2	1.1	1.2
Tabacco	2.1	2.1	1.9	1.9	2.0
Minerals, fuels, and lubricants	0.2	0.2	0.2	0.3	0.2
Other goods	16.6	13.6	13.6	13.3	13.6
Export duties	4.6	3.6	4.1	3.7	3.9
Palm kernels	0.6	0.5	0.6	0.6	0.6
Cocoa	0.7	0.4	0.5	0.5	0.4
Coffee	0.6	0.3	1.0	0.9	1.1
Diamonds	2.6	2.3	2.0	1.4	1.8
Others	0.1	0.1	Neg.[b]	0.3	Neg.[b]
Excise duties	9.4	9.0	8.9	9.7	9.7
Tobacco	2.3	2.2	2.2	2.3	2.2
Beer and stout	1.2	1.6	1.3	1.2	1.7
Fuels and oils	5.5	5.0	5.2	5.7	5.5
Others	0.4	0.2	0.2	0.5	0.3
Other sources	6.3	5.6	5.8	5.2	7.8

Source: Bank of Sierra Leone, Annual Report and Statement of Accounts (England: Brown Knight and Truscott, Ltd., 1972), Table 1, p. 29.

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[a]Calculated by Estimates of Revenue and Expenditure and Development Estimates Department of the Bank of Sierra Leone.

[b]Neg.=negligible.

Because there is a steady increase in the relative importance of revenue from taxation in Sierra Leone, a considerable scope to improve the present tax system is justifiable. The prospect for expanding export duties are great. Under these circumstances, the government cannot afford to experience a set back because the need to stimulate industrial development and expand exportation so as to maintain a balance of payment equilibrium requires some attention. It is a fact that a progressive tax system would achieve its objective without affecting the price structure and without providing further ammunition for another round of demands to increase wages.

CHAPTER III

ANALYSIS OF THE YIELD OF IMPORT AND EXPORT DUTIES IN SIERRA LEONE

The purpose of this chapter is to analyze the changes in the yield of the two most important taxes with respect to change in Gross Domestic Product (Y) in Sierra Leone. A detailed analysis of these taxes will give further light on the structural changes in the fiscal system. The general method employed seeks to explain the changes in the ratio of tax revenue to (Y) through an analysis of changes in rates of taxation and in the relative importance of the tax base in national income.

The Import Duties

The importance of import taxes to the present economic development of Sierra Leone cannot be overlooked because it accounted for 50 percent of the tax revenue since independence in 1961. The approach to the analysis of these taxes can be summarized in the following equations:

(1) $\frac{C_p}{Y} = \frac{Z}{Y} \cdot \frac{C_p}{Z}$

(2) $C_p = f(V_o, K, O, P)$

The first equation shows that the yield of import duties as a ratio of income divided into two parts: the proportion of retained imports to G.D.P. and the average rate of import taxation. The data corresponding to these equations are presented in Table 5. The second equation shows the determinants of revenue from import duties.

TABLE 5

IMPORT DUTIES, RETAINED IMPORTS AND GROSS DOMESTIC PRODUCT

Items	Units	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72
G.D.P.	Millions of Leones	248.0	260.6	288.7	312.2	334.2	358.0
C_p	"	19.318	18.749	24.962	16.592	19.200	19.700
Z*	"	31.047	60.281	74.686	93.096	94.044	94.550
Z/Y	%	12.51	23.13	25.86	29.81	28.14	26.41
C_p/Z	%	62.22	31.10	33.42	17.82	20.41	20.93
C_p/Y	%	7.78	7.19	8.64	5.31	5.74	5.52

Source: Bank of Sierra Leone, Bank of Sierra Leone Economic Review, Vol. VI, No. 4 (Freetown: Bank of Sierra Leone, 1972) Table 34, p. 71 and Annual Statement of Accounts (England: Brown Knight and Truscott, Ltd., 1972) p. 29.

Note: Figures from the above sources and arranged in table form by author.

Import duties have been the most important source of tax revenue for the government of Sierra Leone since independence, and have accounted for 50 percent of the tax revenue which required serious consideration and effective analysis. Our interest, however, is in the yield from import duties relative to monetary income. Table 5 shows that $\frac{Cp}{Y}$ decreased in the second half of the periods under review (1966 until 1972), which are fiscal years 1969-70 to 1971-72. An increase from 7.19 percent in 1967-68 to 8.64 percent in 1968-69 was caused by the impending general elections of 1967 and the subsequent seizure of power by the military in March of 1967. Also, $\frac{Cp}{Z}$ remained fairly constant between 1967-68 to 1968-69 and also in 1970-71 and 1971-72 which was caused jointly by $\frac{Cp}{Y}$ and $\frac{Z}{Y}$.

*Z = total imports minus re-exports.

$\frac{C_p}{Y}$ experienced a decline each period with the exception of fiscal year 1968-69. What is of greater interest to notice is that $\frac{Z}{Y}$ shows a fluctuating trend throughout the period under review, but with an increase in 1969-70 and an illumination when in contrast to export taxes. There has been a relative contraction in imports as in exports; but unlike export taxes, the yield from import duties relative to monetary income has risen in recent years. The average rate of import taxes has shown an upward trend as shall be shown later in the study.[1]

We must now attempt to provide an interpretation of the previous trends. The decline in revenue from importation, as shown in Table 6 was due to the reasons that were stated earlier, the uncertainties of the general election and the military take over.

> Import duties for that year declined over Le6 million although there was an increase by 116 percent in the value of animal and vegetable oil imported in 1967 over that of 1966.[2]

Therefore, there was a result of a very large importation of palm oil, particularly from Nigeria, to meet the shortage of oil imported in 1967 for local consumption, and of raw materials for the candle factory.

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[1]Throughout this study, unless otherwise stated, imports are meant to refer to imports from outside of Africa.

[2]Bank of Sierra Leone, Bank of Sierra Leone Economic Review, Vol. III, No. 1 (Freetown: Bank of Sierra Leone, 1968) p. 17.

TABLE 6

IMPORT BY COMMODITY SECTIONS
(Money Amounts in Millions of Leones)

Year	Food	Beverages and Tobacco	Crude Materials	Minerals, Fuels and Lubricants	Animal and Vegetable Oils
1966	13.798	2.536	0.955	5.693	0.596
1967	12.566	2.159	0.966	4.790	1.323
1968	13.265	2.076	1.110	5.694	0.739
1969	15.321	2.750	1.028	5.673	0.763
1970	20.398	2.837	0.806	4.552	1.089
1971	18.184	3.548	0.986	6.730	0.856
1972:					
Jan.	0.983	0.185	0.047	0.492	0.054
Feb.	1.009	0.470	0.027	0.378	0.171
Mar.	1.813	0.304	0.099	0.854	0.159

(Table 6 continued on page 22.)

TABLE 6--Continued

Year	Chemicals	Manufactured Goods Classified by Materials	Machinery and Transport Equipment	Miscellaneous Manufactured Articles	Miscellaneous Transactions and Commodities	Total All Sections
1966	3,817	19,155	16,638	7,013	1,500	71,701
1967	3,473	17,696	14,788	6,362	1,155	65,278
1968	5,427	22,080	16,458	7,489	1,144	75,482
1969	5,639	27,624	22,208	10,932	1,087	93.026
1970	6.161	26.064	24.970	8.781	1.295	96.893
1971	6.781	24.035	22.965	8.609	1.487	93.910
1972:						
Jan.	0.475	2.013	2.207	0.821	0.104	7,381
Feb.	0.517	1,870	2.049	0.608	0.101	7,201
Mar.	0.673	2,113	1.899	0.664	0.146	8.724

Source: Bank of Sierra Leone, Bank of Sierra Leone Economic Review, Vol. VI, No. 4 (Freetown: Bank of Sierra Leone, 1972), Table 24, p. 58.

The direction of imports changed drastically in 1968, apparently due to the relaxing atmosphere in the country. The current revenue receipts for the nine months period between April to December of 1968 increased. The improvements were results of significantly higher levels of receipts from import duties.

The rise in imports continued in 1969, with a total of Le93.7 million of imports for the year as compared with Le75.5 million in 1968, thereby yielding an increase of 22.8 percent. The January figures for 1969 compared with those of January 1968 show an increase of Le3.1 million which was mainly due to the rise in the value of imported food.

In February of 1968, there was a slight decrease followed by progressive monthly increases up to November when imports reached a monthly peak of Le11.6 million. We further observe that the decline continued in March, and exports dropped within Le7.8 million, but the imported food, beverages and tobacco continued to increase throughout the year. This resulted in the average effective rate of import duties for 1969 amounting to 26 percent for the year. There are many factors that contributed to the import duty generating only 26 percent for that year. Because normal rates of import duty in Sierra Leone are higher than in Liberia, certain particular luxury goods were smuggled from Liberia to Sierra Leone to avoid the import duties. Import rates in Sierra Leone are shown in Table 7. Other commodities such as manufactured goods, machinery and transportation equipment increased significantly to Le5.5 million and Le5.8 million respectively.

TABLE 7

AVERAGE PERCENTAGE RATES ON IMPORTS
1969

Commodities	Percent
Food	16
Beverages and tobacco	127
Crude materials	13
Mineral fuels	32
Oil and fats	7
Chemicals	23
Manufactured goods classified by materials	25
Machinery	17
Other manufactured goods	32

Source: Maten and Bryant, "Tax Reform in Sierra Leone" (unpublished report, 1969) p. 6 "Mimeographed."

Imports rose to a record level in 1970 due mainly to higher import of food and machinery and transport equipment, but declined in the first half of 1971 with a fall in import of manufactured machinery and transport equipment.[1]

The importation of food was up by Le5.1 million to Le20.4 million, and rice was up by Le3.6 million to Le5.0 million because of the poor rice crop in 1969-70. The turning point continued with a rise in the import of machinery and transport equipment by Le2.8 million to Le25.0 million. In the same fiscal year 1970-71, imports of chemicals, oil and fats witnessed a tremendous increase; but on the other hand, manufactured produce suffered a decline by Le3.8 million at Le34.8 million and of minerals and fuels by Le1.1 million at Le4.6 million.

It can be hypothesized that despite the steady increase in the relative importance of import duties in Sierra Leone, a considerable

[1]Bank of Sierra Leone, Annual Report and Statement of Accounts (England: Brown Knight and Truscott, Ltd., 1972), p. 10.

scope for adjustments could significantly expand its role. By the same token, the need to stimulate industrial development and to maintain a balance of payment, suggests to us that the government should pay more attention to the protective and control measures of foreign exchange attributed to these duties. We are, however, confronted with the problem of how the structure of these duties should be adjusted to take into account these requirements when there is a frequent conflict between the revenue and protective attributes, and also between the protective and balance of payment objectives.

The desire for protection is only one of the elements of a nation's development strategies reflected by the structure of tariff rates. In order for us to encourage growth, rates should be highest on consumer goods while imports on capital goods should be treated favorably. With our purpose to increase revenue for economic development, this configuration of rates will increase the relative demand for investment while curbing consumption, thus increasing the savings availability for financing capital formation. Moreover, within the consumption category, rates should be highest on luxury items so that the burden reducing consumption will be directly related to the income of consumers.

Furthermore, to encourage economic development, Sierra Leone should protect her local industries. One of the relevant points to this idea of granting protection to industries in Sierra Leone emerges from the "underemployment of labor theories." We can say that tariff protection is only justifiable when the pattern of production is based on private money costs rather than real social costs.

It can be concluded that the clash between the need to tax commodities for which income elasticity of demand is high, and the need to offer incentives to local industries to edge further into the market economy, would mean taxing less heavily those consumer goods which producers are likely to buy out of marginal cash earnings. It is suggested in the Maten and Bryant Report that:

> . . . to promote competition, to prevent protected monopoly industries from earning excessive profits, and to prevent abuses which are apt to arise in connection with the issue of quota licenses, it is considered that protective duties should as far as possible be substituted for import controls.[1]

This could be true, but it is not the question of revenue and protection, but of the effect of price changes on the demand for a particular imported product if it is assumed that the price elasticity of demand is greater than the unit price. Import control might come automatically when prices rise and imports may then fall for two reasons: total demand for imported products may fall, and there is a possibility that the total domestic production will increase.

With this in mind, we should not overlook the present and future importance of import duties to the economic development of Sierra Leone, and also take certain steps if this is to be accomplished. Firstly, the tariff nomenclature should be expanded to its fullest length of the Brussele Tariff nomenclature to provide the government additional flexibility in raising new customs duties. To ensure the country with international comparability of trade statistics, as well as to enable interested parties to ascertain more accurately the size of the domestic

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[1]Maten and Bryant, "Tax Reform in Sierra Leone" (unpublished report, 1969), p. 5 "Mimeographed."

market for particular products. There should also be an avoidance of misconceptions about certain categories of goods which now appear in the exemption schedules at the end of the tariff, and as far as possible be included in the main schedule of import duties and the remaining exemptions should be transferred from the end to the beginning of the tariff. The numerous rangings in the rate structure must be combined into fewer numbers of distinct and easily calculable rates, and the specific rates should be converted into ad valorem rates, which would be nearly equivalent to the present specific rates when the average value of such goods imported are taken into consideration. The rate structure should also be formulated with regard to whether the goods are capital or consumer goods and whether they are raw materials or semi-manufactured goods.

Finally, the present tariff publication suffers tremendously when compared with the publications of other African countries. It should be revised and in loose-leaf form in order that amendments to the tariffs can be easily inserted. With this uniformity in the import duty, the smuggling from country to country can be brought under control.

Export Duties

The ratio of taxation to G.D.P. in Sierra Leone is generally much lower than in most nations in Africa. But the government has been making efforts with a varying degree of success to increase tax revenue and to diversify the tax system during the past years. The increase in the absolute volume of tax revenue has been substantial; however, the increase in relation to G.N.P. is not impressive.

My approach to the analysis of export taxes to G.D.P. can be summarized in the following equations:

(a) $\frac{E_r}{Y} = \frac{T_d}{Y} + \frac{T_o}{Y} + \frac{T_k}{Y} + \frac{T_c}{Y}$

(b) $\frac{E_r}{Y} = \left(\frac{M_d}{Y} \cdot \frac{T_d}{M_d}\right) + \left(\frac{M_o}{Y} \cdot \frac{T_o}{M_o}\right) + \left(\frac{M_k}{Y} \cdot \frac{T_k}{M_k}\right) + \left(\frac{M_c}{Y} \cdot \frac{T_c}{M_c}\right)$

(c) $T_d = f(P, R, V)$

(d) $T_o = f(P, R, V)$

(e) $T_k = f(P, R, V)$

(f) $T_c = f(P, R, V)$

Equations (a) and (b) are breakdowns of export taxes into their diamond, cocoa, coffee, and palm kernel components. While equations (c), (d), (e), and (f) emphasize the main determinants of the yield from these taxes, i.e. prices of diamond, cocoa, coffee, and palm kernels, quantities exported, and the tax rate schedule. Table 8 shows the figures that correspond to equations (a) and (b). A careful study of this table reveals some interesting behavioral patterns relative to export taxes, particularly during the fiscal years 1969-70 to 1971-72. It should be noted that the four commodities chosen are the main ones in the mining sector of the economy and the prime commodities in the agricultural sector of the economy. They were chosen because of their high yield in export taxes.

It is noticed that export taxes, as a proportion of G.D.P. $\frac{E_r}{Y}$, declined between the 1969-70 and 1971-72 fiscal years from 1.5 percent to 1.08 percent. We further find that the changes in $\frac{E_r}{Y}$ were in the same direction as changes in the average rate of taxation $\frac{T_d}{M_d}$, $\frac{T_o}{M_o}$, $\frac{T_k}{M_k}$ and $\frac{T_c}{M_c}$, and the relative importance of exports in monetary income. If the two diverged, it is the tax rate which in all cases determine the direction

TABLE 8

EXPORT TAXES, DIAMOND, COCOA, COFFEE, AND PALM KERNELS[a]

Items	Units	1969-70	1970-71	1971-72
Y. .	Millions of Leones	312.2	334.2	358.0
M_d. .	" "	56.412	47.546	62.606
M_o. .	" "	2.889	3.026	2.771
M_k. .	" "	5.656	6.808	5.540
M_c. .	" "	3.015	4.611	5.865
E_r. .	" "	4.6	4.1	3.9
T_d. .	" "	2.6	2.0	1.8
T_o. .	" "	0.7	0.5	0.4
T_k. .	" "	0.6	0.6	0.6
T_c. .	" "	0.6	1.0	1.1
$\frac{M_d}{Y}$. .	%	18.6	14.22	17.48
$\frac{M_o}{Y}$. .	%	0.92	0.90	0.77
$\frac{M_k}{Y}$. .	%	1.81	2.03	1.54
$\frac{M_c}{Y}$. .	%	0.96	1.37	1.63
$\frac{T_d}{M_d}$. .	%	46.00	42.00	28.00
$\frac{T_o}{M_o}$. .	%	24.2	16.5	14.4
$\frac{T_k}{M_k}$. .	%	10.6	8.00	10.8
$\frac{T_c}{M_c}$. .	%	19.9	2.10	1.80
$\frac{E_r}{Y}$. .	%	1.47	1.22	1.08
$\frac{T_d}{Y}$. .	%	0.83	0.59	0.50
$\frac{T_o}{Y}$. .	%	22.4	14.9	11.1
$\frac{T_k}{Y}$. .	%	19.2	17.9	16.7
$\frac{T_c}{Y}$. .	%	19.2	2.90	3.00

[a]Figures taken from Bank of Sierra Leone Economic Review, Vol. VI, No. 4 (Freetown: Bank of Sierra Leone, 1972), Table 34, p. 71 and Annual Statement of Accounts (England: Brown Knight and Truscott, Ltd., 1972) p. 29 and calculated by author.

of the change in $\frac{E_r}{Y}$, mainly because of the greater proportionate change in it from year to year.

Another important fact that emerges from a study of Table 8 is that diamond, cocoa, coffee, and palm kernel export tax revenue, as a proportion of G.D.P. $\frac{T_d}{Y}$, $\frac{T_o}{Y}$, $\frac{T_k}{Y}$ and $\frac{T_c}{Y}$ shows a downward trend throughout the period. The decline in $\frac{T_c}{Y}$ was largely due to a downward trend in $\frac{M_c}{Y}$, i.e. the share of coffee exports in G.D.P. With regard to diamond export, the gradual declining trend in $\frac{T_d}{Y}$ was largely the result of a decrease in $\frac{M_d}{Y}$ which is the share of diamond export in G.D.P. For example in 1970-71, the fall in $\frac{M_d}{Y}$ was offset by an increase in the average rate of taxation $\frac{T_d}{M_d}$ in 1969-70. The latter showed a downward trend from 1969-70 to 1971-72.

The next analysis is to explain the trend in the behavior of export taxes noted above. As far as diamond, coffee, cocoa, and palm kernel export earnings are concerned, the general picture is clear enough, revealing a very rapid expansion from 1969 to 1972. This period, however witnessed a gradual increase at the expense of the international market. The diamond industry in Sierra Leone like any other industry is basically controlled by the international market. Therefore, there was a number of significant developments in the international economy--in 1969 and 1970 for example, the devaluation of the French franc by 12.5 percent, the activation of Special Drawing Rights (S.D.R.) at the Annual Meeting of the World Bank and International Monetary Fund, and the revaluation of the Deutsch Mark.

Of the most important was the price inflation which appeared to have gathered momentum in 1969 and exploded in the '70's in the United States, and finally the long sequence of restrictive fiscal measures combined with the tight monetary policy of the United Kingdom and the United States of America. All of these factors combined caused the worst slump to hit the diamond market in the closing months of 1970.

Table 9 shows that the value of diamond export was at its lowest peak in 1967 ". . . in spite of the fact that world prices were much higher for gem stones and industrial diamonds than in previous years."[1] This drop in diamond export may have been caused by many reasons such as when the negotiations were held between the Government and the Sierra Leone Selection Trust Ltd. (S.L.S.T. Ltd.) involving the reform of terms and conditions of the mining contracts, the S.L.S.T. Ltd. stock-piled diamonds; secondly, because of the political uncertainty of the country; and thirdly, because of the heavy rains.

A somewhat different picture emerged in 1968 when there was a stable political atmosphere. This generated a strong will among miners and a stiff competition in the diamond industry. There was a steady increase in the exportation of diamonds in the first quarter of 1968.

The Government Diamond Office purchased gems and industrial diamonds weighing 864,000 carats valued at Le25.4 million in 1968 as compared with 760,000 carats at Le21.8 million in 1967. In addition, the diamonds weighing 1.7 million carats valued at Le46.9 million were exported in 1968 as compared with 1.2 million carats at the value of Le29.7 million in 1967. Consequently, the value of diamonds exported rose from Le25.64 per carat in 1967 to Le27.89 in 1968.

In 1969, the increase in the unit price for diamonds in the world

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[1]Bank of Sierra Leone, Bank of Sierra Leone Economic Review, Vol. VI, No. 4 (Freetown: Bank of Sierra Leone, 1968), p. 2.

TABLE 9

VALUE OF MAJOR DOMESTIC EXPORTS
1966-1972
(Money Amounts in Millions of Leones)

Period	Diamond	Palm Kernel	Coffee	Cocoa
1966	31.292	5.103	3.921	1.435
1967	29.742	1.099	0.308	1.456
1968	46.933	8.593	3.129	2.323
1969	61.888	5.389	3.018	2.859
1970	50.953	7.003	4.322	3.319
1971	49.978	5.915	3.457	2.683
1972:				
Jan.	3.677	0.331	0.316	1.096
Feb.	1.883	0.101	2.149	0.210
Mar.	12.022	0.350	0.999	0.957

Source: Bank of Sierra Leone, Bank of Sierra Leone Economic Review, Vol. VI, No. 4 (Freetown: Bank of Sierra Leone, 1972), Table 21, p. 55.

market and the increase in diamond production made it possible for the G.D.O. to purchase and export more diamonds. The diamonds purchased by the G.D.O. in 1969 amounted to 1.1 million carats valued at Le33.7 million, regarded as the highest level of purchases in terms of caratage since 1961.

With a number of significant developments in the international market, as stated previously in this section, the purchasing and exporting of diamonds declined sharply. This accounted for 14.7 percent of the decline, and the world price dropped from Le27.89 percent in 1968 to Le26.06 per carat. One of the worst slumps to hit the world diamond market came in 1970, but the market shows a slight recovery in the first half of 1971, mainly due to the result of developments in the rest of the world market. This sign of improvement had an immediate impact on the licensed miners and dealers under the Alluvial Diamond Mining Scheme, through a 3 percent increase in the G.D.O. price.

Considering the world price for cocoa, the subsequent increase in the world price in or around September of 1968 was associated with the sharp drop in Ghanaian farmers to lower producer prices and other economic incentives. During the fiscal year 1968-69, the S.L.P.M.B. purchased 4,220 tons of cocoa as compared with 3,400 tons in 1967-68, yielding an increase of 24 percent. During the course of 1969, the Board exported 4,223 tons of cocoa for Le2.859 million, as compared with 3,856 tons for Le2.323 million respectively during 1968. The Board's cocoa purchases rose from 4.0 thousand tons in 1969 to a record figure of 4.9 thousand tons in 1970, with the rise in production brought about by the use of fertilizers, pesticides and improved seeds, timely harvesting and proper fermentation procedures. Purchases in the first half of 1971 rose to 1.1 thousand tons as compared to 1970.

The prospect in the agricultural sector of the economy continued to be unfavorable. One example is that in the fiscal year 1966-67, there were direct results because of the protest by farmers to receive their delayed payment from the S.L.P.M.B. There was an increase in production when the farmers restored their confidence in the S.L.P.M.B., the sole buyer and exporter of agricultural products.

"The world market price for palm kernels declined gradually during the first eight months of 1969"[1] There was a decline from Le107.86 per ton in 1969 compared with Le141.44 per ton in 1968. Furthermore, the volume of palm kernel exported in 1969 was 49,000 tons as compared with 64,000 tons in 1968. These figures represent a decline in exported palm kernel of 5,656 tons in the fiscal year 1969-70.

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[1]Bank of Sierra Leone Research Department, Sierra Leone Monthly Economic Trends (Freetown: Bank of Sierra Leone, 1969), p. 3.

Finally, the international markets had an effect on the behavioral pattern of the production and exportation of palm kernels. For example, in 1970, the bad climatic conditions damaged crops in the Philippines causing a scarcity of "copra" which was substituted by palm kernels. This attributed to the increase in demand for the product and consequently an increase in the world price. But the price declined in 1971 again due to the introduction of Asian countries to the market for the first time.

At first coffee was slightly less responsive to the Board's efforts to regain control, probably because of the greater susceptibility to smuggling of the crop across the border. Exportation of coffee fell significantly from 2,731 tons in 1966-67 to 606 tons in 1967-68. As a direct result to stabilize prices in the world market, the International Coffee Organization in 1969 decided to reduce member quota. This resulted in a direct consequence of the reduction in the volume of Sierra Leone's exportation of coffee in 1969, yet export earnings from this source were favorable. A total of 5,778,000 tons worth Le3.0 million was exported in 1969, compared with 6,317,000 tons worth Le3.1 million exported in 1968.

The behavioral pattern of the world coffee price has been steady throughout 1969, but there was a moderate rise in the first half of 1970. The incidence of "rust" in Brazil which reduced the world supply of coffee has continued to exert an upward thrust on coffee prices. It has been forecast that world prices will continue to be so affected for at least the next two years.

In Sierra Leone, the S.L.P.M.B. has continued to pay Le315.60 per ton for coffee to local agents. This price level has remained unchanged since the last buying season of 1969. Purchases by the Board dropped by 27 percent to 5,903 tons for the first half of 1970 when compared with the corresponding period in 1969. Exportation also declined by 4 percent or the equivalent of 3,430 tons; however, the increase in world prices inflated the sales receipts of the Board by approximately 11 percent to Le2.2 million.

At the beginning of 1968, the supply of coffee showed very little response to the increase in prices. There was an upward swing in deliveries at the end of March, thus confirming the trend already exhibited by other commodities. There were 1,425 tons of coffee exported in March at an f.o.b. value of Le0.60 million, whereas the corresponding figures for the same period in 1967 were 977 tons which is equal to Le0.56 million.

The Analysis Yield of Primary Commodities and Semi-Manufactured Products in Sierra Leone

As to whether the Sierra Leone government should pay more attention to the export of primary commodities and semi-manufactured products, the answer lies in the importance of these commodities. In the long run, the main objective of the developing countries in Africa, like Sierra Leone, is to secure significant increases in productivity and income by means of economic transformation. As a result, the main discussion in this section is how primary commodities will contribute to the economic development of Sierra Leone.

With regard to revenue from export taxes, the situation as it is now is likely to become worse if the present trend continues. We have already noticed that revenue from export taxes contributes 9 percent to the tax revenue, therefore, the importance of primary commodities should not be overlooked. The impact of primary commodity exports on the general growth of the economy of Sierra Leone comprise a direct effect which depends partly on the linkages between the primary exports and other sectors of the economy, and partly on the impact of the growth of primary exports on the social structure, the quality of the labor force, and the magnitude of induced social expenditure. It is a fact that once more attention is given to the increase in primary commodity exports, the more stimulation to the growth. An example is when:

> . . . the Produce Marketing Board's "ginger" purchases increased from 0.4 thousand tons in 1969 to 0.5 thousand tons in the first half, as also the whole of 1970, and stood at the highest level in the first half of 1971.[1]

The present situation of Sierra Leone's earnings from primary exports and their impact on the economy could be increased, perhaps very significantly if the commodities were to undergo more processing before exported. Arranging this is partly a question of domestic policy for the government of Sierra Leone, but to a large extent it is also a matter of tariff policy in the developed market economies such that rates of duty vary directly with the degree of processing. The importance of export for development shall be discussed in Chapter V.

The important issue that face Sierra Leone now is the difficulty of maximizing export earnings from primary commodities while attempting to diversify their economic structure and exports in the face of considerable obstacles in the major markets. At present, a relatively small number of primary commodities loom large in the export structure of many other African countries.

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[1]Bank of Sierra Leone, Annual Report and Statement of Accounts (England: Brown Knight and Truscott, Ltd., 1972), p. 46.

Policy Consideration for Export of Primary and Semi-Manufactured Products in Sierra Leone

The export of primary commodities has been focused on trade with developed market economies. Sierra Leone's export of primary commodities and semi-manufactured products to these economies fared reasonably well in the second stage of economic development which is the period under review. This stage is characterized by W. W. Rostow as the "Pre-conditions for Take-Off." In discussing the pre-conditions, Rostow argues that:

> . . . there has first to be an increase in productivity in the primary sector, usually in food production; but wool, cotton, silk, or timber or rubber--or in the case of the Middle East, oil may also play the role of the leading sector. In any case the pre-conditions are likely to be established somewhere within the primary sector.[1]

If there is evidence of fair economic conditions, it is still necessary to recognize that determined policy action is required if Sierra Leone's primary commodity exports are to play their full role in economic development. A basic policy in Sierra Leone is needed to diversify the export structure for primary and semi-manufactured products. For this reason, it is felt necessary that the developed market economies modify their tariff structure in order to make diversification easier by means of further processing of presently available commodities. Without this option for increasing export earnings, there is a temptation within existing climatic conditions and resource endowments for development in Sierra Leone to invest even more resources

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[1]Benjamin Higgins, ed., Economic Development (New York: W. W. Norton, 1968), p. 176.

to increase the volume of its existing primary commodity exports and to attempt to diversify simply by expanding the range of primary products. Such a policy often leads to disorganization of the markets for these commodities through over-supply since the capacity of Sierra Leone to increase production is very great in relation to the rate of increase in world demand for many of these commodities such as iron ore, bauxite, rutile, cocoa, ginger, Kola nuts, and piassave.

While Sierra Leone's exports have done quite well in the 1970's, partially because of genuine competition, it should not be construed to mean that they could not or need not have been higher. Apart from the other export products, primary products like diamonds or bauxite had fared well in the past and the

> Output of bauxite by the Sierra Leone Ore and Metal Company, Limited (SIEROMCO), which had gone up steadily in the preceding four years, declined by 2 percent to 436 thousand tons in 1970; subsequently, production resumed its upward trend and rose by 25 percent from 214 thousand tons in the first half of 1970 to 268 thousand tons in the same period of 1971. In June of 1971, the company produced 55 thousand tons--the highest monthly figure since it commenced operations.[1]

In addition to these minerals and tropical products, commodities like cocoa, ginger, kola nuts and pissave are in competition with the international market from other African nations. The most difficult aspect of competition from other African countries is that afforded by synthetic materials such as rubber from Liberia and cotton from Uganda. It is not possible or desirable to deter technological progress.

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[1]Bank of Sierra Leone, Annual Report and Statement of Accounts (England: Brown Knight and Truscott, Ltd., 1972), p. 10.

To some extent the adverse effect for Sierra Leone may be offset by increased promotional campaigns and by domestic efforts to increase the quality and lower the price of the relevant products. In this instance a stronger appeal for international assistance to the developing African nations, with a strong interest in the commodities in question, could be asked to bear unaided costs of structural transportation in the international economy.

We can conclude that $\frac{E_r}{Y}$ was determined by export price movements. We see that because of the fall in international prices in 1969 and in 1970, the export prices fell. Therefore, the average rate of tax has been influenced by the international market. Moreover, only 9 percent of the tax revenue comes from export taxes caused by the downward trend in the world market. It does seem that the Sierra Leonean government should seek more revenue from other sources and change the government's revenue by giving more attention to primary and semi-manufactured products that may substitute the loss of revenue from export. Increases in tariffs will not solve the problem, but will create some fiscal problems such as changes in the relative price structure and the addition of a few more points to the cost-of-living index. More progressive export taxes would achieve these objectives without affecting the price structure and any further ammunition for demands of increases in wages.

CHAPTER IV

ANALYSIS IN THE YIELD OF CORPORATE AND INDIVIDUAL INCOME TAXES IN SIERRA LEONE

The behavior of the yield of both corporative and individual income taxes are especially interesting as they are the only genuinely progressive taxes in Sierra Leone. There is evidence to suggest that corporate investments in Sierra Leone are responsive to change in retained earnings, and if this inference is correct, the corporate investments are affected by the progressiveness of corporate and individual incomes. The purpose of this chapter is to analyze the behavior yield of the two most important income taxes in Sierra Leone, corporate and individual income taxes.

Corporate Taxes

As with other taxes, the approach to the analysis of corporate tax in Sierra Leone may be summarized in the following equations:

(a) $\frac{Cr}{Y} = \frac{Cu}{Y} \cdot \frac{Cr}{Cu}$

(b) $Cr = f(K, Cu, Po)$

Much like the import and export analysis, the information corresponding to the equations are presented in Table 10. However, before a detailed analysis of $\frac{Cr}{Y}$ is presented, it is necessary to mention the corporate tax in Sierra Leone. This tax is presently levied on all companies, organizations, and trusts. Companies in Sierra Leone are divided into two distinguished groups because of their functions and activities, the controlled companies and the public companies. By

TABLE 10

CORPORATE INCOME, CORPORATE TAX AND GROSS DOMESTIC PRODUCT (Money Amounts in Millions of Leones)[a]

Year	Undistributed Profit (C_u)	Corporate Tax (C_r)	G.D.P. (Y)	$\frac{C_u}{Y}$ (%)	$\frac{C_r}{C_u}$ (%)	$\frac{C_r}{Y}$ (%)
1966-67	4.480	1.879	248.0	1.80	41.90	0.75
1967-68	14.000	6.317	260.6	0.53	45.12	2.42
1968-69	13.800	6.674	288.7	0.47	48.36	2.31
1969-70	14.270	7.000	312.2	0.45	49.05	2.24
1970-71	16.500	8.100	334.2	0.49	49.09	2.42
1971-72	15.270	7.100	358.0	0.42	46.49	1.98

[a]Figures from the Income Tax Department of Sierra Leone (unpublished) and the Sierra Leone Economic Review, Vol. VI, No. 4 (Freetown: Bank of Sierra Leone, 1972), Table 34, p. 70.

definition, a controlled company is a resident company or a public holding of more than 25 percent of the voting power and equity. In other words, it is not a subsidiary company or a company in which the public is substantially interested. In the case of public companies, relations and nominees of other persons are completely excluded. Persons with 20 percent or more of the voting power or equity are not affiliated with public companies. One-man firms and partnerships are treated as individuals and corporate tax is not levied on them.

In analyzing the behaviorial pattern of the corporate tax revenue yield in Sierra Leone, the undistributed profit of the tax base is used because distributed profits have already been included in the incomes of individuals as dividends; thus, it is better to use it as a base rather than as total profits. As shown in Table 10, the figures for undistributed profits were arrived at by deducting all dividends paid by companies to the individuals as well as to other companies from the aggregate corporate income. In view of the fact that dividends paid are usually from the income in preceding years, this has an effect of overestimating the undistributed profits in a period of rising dividends and conversely in a period of falling dividends. Furthermore, complete accuracy is questionable; but we shall have some idea of the corporate income yield in Sierra Leone. The significance of these figures of undistributed profits is that normally they are circulated after deducting all dividends from the actual income of corporate bodies. The dividends given in any year are derived from the income of the preceding years. Therefore, the author contends that the overestimation of the amount of undistributed profits as the latter are to be given out of the previous year's income and conversely when dividends are falling.

Table 10 also reveals some interesting features about the changes in $\frac{Cr}{Y}$ over the period 1966-67 to 1971-72. $\frac{Cr}{Y}$ shows a fluctuating trend in the fiscal years 1967-68 to 1970-71. This, of course, was mainly due to the increase in both the share of undistributed profits in monetary income $\frac{Cu}{Y}$ and the average rate of taxation $\frac{Cr}{Cu}$. The undistributed profits in monetary income $\frac{Cr}{Y}$ shows a constant ratio in the fiscal periods 1967-68 and 1970-71, and the average rate of taxation $\frac{Cr}{Cu}$ with a fairly constant ratio between 1968-69 and 1970-71.

$\frac{Cr}{Cu}$ declined slightly from 49.09 percent in 1970-71 to 46.49 percent in the fiscal year 1971-72. This was because of the steep fall in the mining companies' tax proceeds to Le0.7 million in the fiscal year 1971-72. The low ratio of $\frac{Cr}{Cu}$ in 1966-67 was no mystery because investors and economic speculators were very pessimistic about the features of the country. This was certainly brought about by very slow and difficult process of capital accumulation, particularly in the private sector of the economy. The unstable political atmosphere in the country also caused foreign investors to take their investments to other countries.

The fluctuation of $\frac{C_u}{Y}$ between 1966-67 and 1971-72 fiscal years can be explained by a series of events, such as the government attitude toward industrialization by exercising the Development Act of 1960 which granted liberal tax concessions and privileges to new corporations. The performance of these new corporations fell below expectation in providing employment to Sierra Leoneans and in providing domestic skill and resources for economic development.

It is difficult to estimate the potential revenue which has been lost as a result of the generous governmental treatment of companies in the past. There is a growing skepticism among economists relative to the effectiveness of this fiscal device to bring about a higher level of private investment to Sierra Leone. While this generosity was provided by the government, it resulted in a substantial loss of revenue. Since the government had all the jurisdiction over partnerships, trusts and other incorporated associations, there was a tendency on the part of these institutions to become private and public companies in order to escape higher taxes. The only solution to this is to reform the corporative income tax policies.

Corporate Taxes and Price Levels

There has been a great deal of speculation that if the Sierra Leone government reforms the corporate income tax system, there would be an immediate effect on price policy. Looking at the types of corporations that exist in the country, the uncertainty of the price policy would probably diminish or the price policy would be slightly affected. If the corporate income tax is increased, everyone would expect the new rate to remain enforced. It seems that the few firms would keep the price of their products unchanged and the tax would provide the opportunity for simultaneous, if not concerted, increases in prices of the products. This conclusion infers that the corporations would be enabled to obtain larger profits before taxes than they have received previously. This also shows them far from reaching the level of profit prior to the increase in the taxes.

If the government of Sierra Leone imposes a larger tax on corporations such as the Electricity Corporation or the Road Transport Corporation, this increase would have a pronounced effect upon prices. The people are the largest consumers of the two corporations and will have to bear the burden. The reason is that the firms raise their selling prices in an effort to offset higher taxes, creating a still larger taxable profit and having to pay still more tax.

Income Elasticity of Corporate Taxation

The characteristics of the corporate income tax in Sierra Leone refers to the responsiveness of the tax yield to changes in the economic base or income-producing potential of the economy. The equation: $C_r = f(P_o, K, C_u, A)$ shows that corporate tax revenue is a function of profit, investment, depreciation allowances, tax rate and the division between distributed and retained profits. In a situation like this, we experience some problems if we try to make allowances for distributed profits which in this case are effectively taxed on the chargeable income of the recipients of dividends.

Let us assume that if the marginal rate of taxation applicable to all shareholders exceeds 20 percent, the marginal rate of taxation of corporate income would be $\frac{\Delta C_r}{\Delta P_o}$; hence, the income elasticity of the tax will be greater under a policy of maximum dividend distribution rather than a maximum retention of profits. It is likely that most of the marginal rate of taxation applicable to shareholders will be in excess of 20 percent. We can conclude that a policy intended to encourage maximization of tax revenue in the short-run will conflict with other objectives of fiscal policy such as accelerating the rate of capital formation and eliminating gross inequalities in the consumption pattern of different income groups.

If the rise in tax yield is proportionate to an increase in the base, then the elasticity becomes unit elasticity. Individual income tax, which will be discussed later, vary considerably in elasticity. Let us assume that a cigarette tax in Sierra Leone will have a low elasticity because the tax will be based on the number of cigarettes sold and not the price. As income goes up, smoking does not go up in proportion, so the elasticity is found to be low. The opposite is true of alcholic beverage taxes. They may have somewhat higher elasticity, but still less than unity. A general sales tax has a higher elasticity but probably less than one unit of elasticity because of the tendency that most people save a larger share of their income.

The corporate income tax of Sierra Leone would add, however, some degree of revenue elasticity and enable the country to benefit from rising corporate profits. Elasticity works both ways--if income and corporate profits declined, tax collections would fall more than proportionately.

Individual Income Tax

The demise of individual income tax has been predicted regularly since pre-independence. These predictions have been based in part on the failure of the individual income tax, the traditional theories of tax equity, and in part on the problems of administration. The individual income tax in Sierra Leone is levied on employees, partnerships and one-man firms. As one of the progressive income taxes, its analysis yield will take the same method applied to other taxes. The analysis yield of the individual income tax can be summarized in these equations:

(a) $\frac{C_i}{Y} = \frac{R}{Y} \cdot \frac{C_i}{R}$

(b) $C_i = f(R, K, A, X_o)$

Equation (a) shows individual income tax revenue as a proportion of monetary income (Y). Equation (b) represents the principal determinants of income tax revenue--personal taxable income, the tax rate schedule, allowances, and the proportion of residents' to non-residents' taxable income. Information relating to equations (a) and (b) is in Table 11.

Before discussing the analysis yield, it is necessary at this point to define our income tax base (R). This base includes all incomes of employees, partnerships and one-man firms minus interest paid and losses suffered. This definition covers both residents and non-residents. As in most underdeveloped countries, owing to a fairly widespread practice of tax evasion and under-deceleration among businessmen, it is very likely that (R) is an underestimation of the income of a few people who are assessed. There are also many factors that determine the level of (R). Among the factors are:

(1) Share of unincorporated companies in the total number of enterprises.

TABLE 11

PERSONAL "TAXABLE" INCOME, INDIVIDUAL INCOME
TAX AND GROSS DOMESTIC PRODUCT
1966-1967 TO 1971-72
(Money Amounts in Millions of Leones)

Year	Individual Income Tax	Personal Taxable Income	G.D.P.	$\frac{R}{Y}$ (%)	$\frac{Ci}{R}$ (%)	$\frac{Ci}{Y}$ (%)
1966-67	1.300	3.130	248.0	1.26	41.5	0.52
1967-68	1.010	4.122	260.6	1.58	24.5	0.38
1968-69	1.100	4.355	288.7	1.50	25.2	0.38
1969-70	1.000	2.400	312.2	0.76	41.6	0.32
1970-71	1.500	2.500	334.2	0.74	60.0	0.44
1971-72	1.200	2.700	358.0	0.75	44.4	0.33

Source: Income Tax Department of Sierra Leone (unpublished).

(2) Level of profits and allowances.
(3) Dividend distribution policy.
(4) Expansion of money supply.
(5) Distribution of income.

With this explanation, the analysis of personal income shall be considered. Between the end of 1969 and the middle of 1971, the money supply increased slightly by Le0.2 million which lead to the expansion of (R). Another factor that spear-headed the expansion of (R) was the rise of Le9.1 million in the net external assets of the banking system. These assets increased the money supply, and the money supply in turn expanded the personal taxable income. These are reasons for the belief that the personal taxable income (R) is flexible with respect to increases in (Y), but inflexible only when (Y) falls. A large percentage of (R) consists of income from employees and individuals in the upper income brackets, probably causing (R) to fall when (Y) falls. An example of this was when the total domestic export for 1969 increased by Le9.3 million in which diamond export was the largest contributing factor and the average employment in the mining industry rose during 1969 by 16 percent, probably causing an increase in (R).

In Table 11, $\frac{R}{Y}$ shows a moderate improvement during the period under review (1966-67 to 1971-72). Furthermore, the moderate improvement has been maintained even though $\frac{C_i}{Y}$ remained constant in 1967-68 and 1968-69 fiscal years. The only reason for this constant ratio $\frac{C_i}{Y}$ is because of the moderate improvement in $\frac{R}{Y}$ which is the ratio of personal taxable income to total monetary income. The changes in the average rate of taxation $\frac{C_i}{R}$ during this period have been significant with the exception of a decline in the 1967-68 and 1968-69 fiscal years. This decline between 1967-68 and 1968-69 was due to the increasing importance of allowances and deductions which have some bearing on the average rate of taxation.

In summary, $\frac{C_i}{Y}$ remained stable between 1967-68 and 1968-69, but the average rate of taxation $\frac{C_i}{R}$ declined in the fiscal years 1967-68 and 1968-69. Consequently, a relative increase in allowance, a decrease in the proportion of non-residents to total actual income, and a more even distribution of chargeable income can be determined.

Income Elasticity of Individual Income Tax

It was stated in the previous section that the revenue from individual income tax is a function of the following variables: $C_i = f(R, K, A. X_o)$. It has also been established that an increase in taxable income (R) is influenced by an increase in income (ΔY). This will occur only when individuals who are already paying income tax or will enter the tax-paying population by the effect of an increase in their income and also with A, K, and X_o given. It is clear that if this assumption applied to the low-income group in Sierra Leone, it may not lead to any increase in individual income tax revenue. Given ΔR, ΔC_i will be greater when the proportion of (R) is going to individuals who are in the higher income bracket.

The distribution of incremental income between residents and non-residents in Sierra Leone has a tremendous effect on the tax system. The greater the proportion of incremental income going to non-residents, the greater the income elasticity of the fiscal system. When analyzing individual income tax, there are other determinants that should be considered, the tax rate schedule (K) and allowance (A). In Sierra Leone, these determinants are treated as parameters when analyzing the responsiveness of the individual income tax. It is also worth considering the revenue effect on the changes in the tax rate schedules and allowances. An increase in the tax rate schedules will lead to an increase in the $\frac{C_i}{Y}$ because all of the tax-payers will be pushed into higher tax ratios. Similarly, a reduction in allowance will lead to an increase in $\frac{C_i}{Y}$ because the existing tax-payers will be categorized into higher marginal tax brackets, as well as, increase the number of tax-payers. Changes in both determinants will also affect the marginal rate of taxation $\frac{C_i}{R}$. We can conclude that it is not possible to say what effect these changes will have on the income elasticity of the individual income tax.

Progressiveness of the Income Taxes

After examining the two most important income taxes of Sierra Leone's tax system, there is no need to expound on them except for their progressiveness, especially since by definition progressive tax helps society to achieve a less unequal distribution of income.

There were many factors that contributed to the decline of individual income tax and corporate income tax, but the most important is the income distribution in Sierra Leone. The most common economic argument is that a more equal income distribution would tend to reduce the pressure on the balance of payments resulting from growth because the consumption of the wealthy has a higher foreign exchange component, directly and indirectly, than that of the poor. As in other underdeveloped countries, the argument against the desirability of a more equal income distribution in Sierra Leone is that greater income equality means less private savings, and that private savings and investments are likely to be in the future as they probably have been in the past, generally more socially productive than for public savings and investments. The marginal propensity to save out of private disposable income in Sierra Leone has been extremely low, almost negligible considering the high proportion of increases in income which appear to have gone to relatively better-off sections of the country. An obvious explanation for the strikingly poor performance of private savings in recent years is the increased rate of inflation. Nevertheless, the apparent high propensity to consume by the rich suggests that increased taxes on them would have at most a small depressing effect on private saving.

By cutting down on the personal income and consumption of the well-to-do, there is substantial room for increasing the total public saving in Sierra Leone without any serious effects on private savings. The net effect on total saving of increased taxation of the upper-income groups would most likely be positive, as long as the marginal propensity to spend on current consumption of the government is less than that of the taxed groups, as has apparently been true throughout the period under review.

The author concludes this discussion of income distribution in Sierra Leone with his contention that a good part of the additional revenue needed to finance an adequate economic development, can and should come from progressive taxation of personal income. The traditional argument against re-distributive tax policy in poor countries on the grounds that it reduces saving has little merit in Sierra Leone, where the public sector appears to be a more efficient saver than the household sector. The key to achieving re-distribution and growth in Sierra Leone lies in proper treatment of the corporate sector. Funds can be transferred from the public to the private sector through either the fiscal or financial mechanism such as tax incentives for self-financing or through bank credit or direct governmental loans.

CHAPTER V

TAXATION FOR ECONOMIC DEVELOPMENT

There is no doubt that Sierra Leone is substantially increasing the role of economic growth, which in the short-run will bring the country to the level of per capita real income comparable to other developed countries in the world. To accomplish this goal, taxation constitutes a key factor, the promotion of which is necessary for economic development.

In fact, since independence in 1961, there has been no spontaneous or autonomous tendency on the part of the government to evaluate the present tax revenue. With the evaluation of such revenue sources, the government will be able to adequately finance such infrastructure as transportation, power, administration, and education. Also a good deal of tax revenue will go into capital formation for modern industry such as machinery equipment and basic goods for agricultural development. Finally, a significant share of the tax revenue in the form of investment would go to the public sector enterprises which are under no pressure to earn their foreign exchange requirements as has been sought to be done with whatever measure of success for the private enterprise.

Moreover, it is worth noting that the expenditures of the Sierra Leone government during the period under review have increased tremendously, which means in or around 1983, the government would need twice the revenue now generated from taxes. Therefore, the government's expenditures may be analyzed in absolute terms and could be further related to such other important economic variables as export, gross national product, and price in order to present a more varied picture of the growth of government expenditure and revenue.

Under normal circumstances, government expenditure has been related to exportation in view of the fact that the latter constitutes an important part of commercialized production in many of the developed economies of the world. The relationship will be very significant to an underdeveloped country like Sierra Leone if more efforts were placed on export promotion for development. In developed countries, the level of domestic income, investment and consumption are effected by the demand of their exports in the world market, and Sierra Leone would be no exception. Therefore, any fluctuations in export earnings affect the level of government expenditures. It is through revenue that a direct relationship between export earnings and government expenditure can be established, and the export boom can be translated into an immediate increase in government expenditure.

Because of the aforementioned facts, the remainder of this chapter will be focused on the problem of increasing tax revenue for economic development.

Taxing Exports

"Export duties accounted for almost 9 percent of tax revenue in the fiscal year 1968-69, of which over 5 percent was attributed to diamonds."[1] It should be emphasized that the Sierra Leone government should ensure an adequate growth of exports, continue to encourage more efficient production and step-up domestic savings, investments,

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[1]Maten and Bryant, Tax Reform in Sierra Leone, p. 6.

productivity, and have optimum utilization of the country's materials and human resources. The crucial role of exports in economic development is ascribable to the following reasons. The increased domestic output of the commodities that have an export market will probably increase the proportion of the level of production in Sierra Leone. Secondly, during this period of development, Sierra Leone needs foreign supplies of machinery, equipment, and technical know-how. This stage of development is marked by a significant increase in imports, but imports have to be paid for, and this can be done either by foreign loans or grants, foreign investment in domestic economic activity, or by exportation. There is no doubt that exports are economically the best wares for financing imports. When imports are financed by exports, the domestic buyer has the freedom to buy in the market of his choice and at the best competitive prices; whereas, when imports are financed by foreign aid, the sources of supply is restricted to the market of the lender and prices are invariably marked up by the sellers in the lending country as they know that the buyer has hardly any choice in a source of supply. Thirdly, there should be a creation of international competitiveness with the exporting of commodities and cost reduction, particularly in the export sector. Fourthly, rather than concentrating on domestic markets, producers and traders should seek export markets in order to help increase the level of productivity in the country. Also, efficiency in marketing of goods and services abroad and the establishing of credit, insurance and transport facilities for exportation is essential. Finally, the prevention or reduction of tariff quota and their barriers to the entry of exports in foreign markets should be enforced.

It is necessary to remember that export promotion does not necessarily mean that we should export just whatever is produced in the economy that has an export market. Because exports must be competitive, this means that there should be a lower cost than those of competing suppliers within the countries to which the exports are directed, whether indigenous or imported from other countries. For a country like Sierra Leone that cannot go in freely for lack of large-scale production or technological advancement, it seems certain that the country should resort to orthodox policies of basing exports on geographical or other natural advantages possessed by the developing nations. The advantages for Sierra Leone are clear and distinct. A wide variety of agricultural products can be grown and exported. The large reserve of iron, bauxite, and diamond, as well as, the fast growing fishing industries can also be improved to increase exportation; and the large labor reserve can be trained to handle highly skilled work. Therefore, exports should be a continuing task not only during the development process, but also after the country has reached a stage of reasonable economic development.

Our only hope is to increase the import substitution which does not mean a decrease in imports although the composition of imports is bound to undergo a change if economic development is to be achieved. There is no escape from the fact that a massive increase in export is needed if we are to have continuous economic growth.

Taxing Corporations

The mobilization of small savings is one of the requirements for economic development, and these savings can be channelled into productive investments. In a mixed economy like that of Sierra Leone's, the only institution that can accomplish this is the corporation. Corporations come to play an increasingly important role in a developing economy, Concommitantly, the corporation income tax has also come to occupy an important role in the tax structure of Sierra Leone.

To understand the important role of corporate tax in the economic development of Sierra Leone, it requires a knowledge of the incidence of this tax. The question, of course, is whether the burden of the corporation income tax is borne by the corporations on which it is levied or can be shifted elsewhere. It is only on this settlement of the issue that we can conclude the significance of this taxation on economic growth.

In recent years, economists have expressed doubt about the realism of the basic assumption of the neoclassical theory of the firm; namely, that firms maximize profits by equating marginal cost and marginal revenue. In their price decisions, the firms in Sierra Leone have to choose among many competing objectives rather than the unique objective of profit maximization that is advocated by the neo-classical economists. In a free enterprise economy like Sierra Leone's, price decisions are dominated by the actions of restrained monopolists who set their prices either at a level which will cover their full costs plus a margin for profits, or who endeavor to earn a target rate of return on their investment. Therefore, to reach this goal, enough market power should be provided in order to shift any tax increase which may threaten to erode their pre-set profits or rates of return. The possibility that tax increases will be shifted is high because it does affect all corporations. It is suggested that general increases in costs and taxes will lead to a general rise in prices, and the government will have to validate such increases by some monetary policy.

The Effects of the Shifted Corporative Income Tax on Economic Development in Sierra Leone

We have already established on the supply side that since the corporative income tax is shifted by the corporations, there is no curtailment of funds available from investment earnings. The corporations may have to make some adjustments in their cash flow to accommodate tax payments which is not a serious problem. On the other hand, there is no doubt that taxation of dividends depress stock prices, and the sale of new issues may be more expensive to the corporations because a higher yield rate must be offered and become less valid. There is no doubt that the shift in corporate income tax does not check the amount of equity capital available, and also the argument of permitting tax-payers a credit against tax due on dividends is no longer significant if this tax is shifted.

It has been stated that in Sierra Leone, the consumers bear the burden of the corporate income taxes. Roskamp stated, "Why not replace the corporation income tax by a general sales tax and make obvious a burden which the consumer is carrying anyway."[1] This general sales or purchase tax is common in many developed countries, where taxes are levied at fairly low rates over most forms of production or consumption. These taxes are in a variety of forms, some levied at the retail stage, others at the wholesale or production end. Other taxes are in the form of "single stage" taxes. If they are levied on a portion of value added, that portion of value added is then exempt from tax no matter how many further productive processes the commodity may undergo. In addition to

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[1]Karl W. Roskamp, "The Shifting of Taxes on Business Income: The Case of the West German Corporations," National Tax Journal, XVIII (September, 1965), 257.

the forms of taxes is the "multi-stage" tax which is a tax at every stage of production of the gross value of sales and not the value added.

It seems very doubtful if a sales tax or purchase tax would be desirable or practicable in Sierra Leone at this stage of economic development because they desire a considerable degree of specialization in administrating and a good deal of paper work. But in a country with a very low ratio of foreign trade to national product, the need for revenue may force a country like Sierra Leone to introduce such a tax.

Looking at the supply side of capital formation, it is advisable to keep the tax in force as a tool for mobilizing savings for economic development, even if the corporations do not actually bear the burden. The corporations become the agents of the government for collecting the taxes from the public which in a legal sense, the corporations should be paying out of their profits. On the demand side of the capital formation problem, we should note that the tax revenue of Sierra Leone will be the same whether or not the tax is shifted. Moreover, the benefits obtained by the private sector from the government expenditures are not altered whether or not the tax is shifted. In Sierra Leone, it is true that the government finances most of the social overhead capital, both as a direct instrument for economic development and an incentive to increase the participation of private capital in economic development. Sierra Leone undertakes investment projects as a stage of their economic development and so do other developing countries. Some projects are not very attractive to private enterprises, but are of great significance to the people and for the economic growth of the nation. Some create more employment and income, such as certain social overhead investment by the government which produces a good environment within which the private sector does indeed derive some direct benefits from tax supported government expenditures.

With this in mind, we can now analyze the demand side of the problem of capital formation in Sierra Leone. Generally speaking, the shifted taxes which were just discussed, does not in some degree affect the inducement to invest because the rate of return in the corporate sector in the economy of the nation is not adversely affected. The government's expenditures on social overhead capital may actually encourage the corporations to invest more. A tax shift will reduce the purchasing power of the public, thereby reducing the demand for all goods and services including those produced by corporations. This reduction in the consumption of Sierra Leone is very beneficial because of the present stage in economic development, and because whatever is lost by the consumer is channelled into productive investment. Therefore, the only justifiable means by which a shift in corporative income tax can be beneficial is to discourage corporations from engaging in purely financial investments which may be more profitable than investments in real capital assets.

Sales Taxes

In the report by Maten and Bryant, Tax Reform in Sierra Leone, the commission took the stand that it is not yet time for a sales tax to be implemented in Sierra Leone. The author believes that a multiple-point tax levied at a fairly low rate will yield a tremendous amount of revenue for economic development, and that occasionally it should be supplemented on selected luxury products. It is further believed that the sales tax can be used as a mass tax, with only a few well defined commodities. The particular commodities would be exempted from taxation in order to reduce tax evasion which is now a main problem. There should also be stronger administrative considerations than there are theoretically or in equity considerations. Sales tax administrators do not collect revenue from dealers, but they should often have the power to check records of tax-payers on the basis of estimates and sales volume of dealers in order that a majority of the traders are charged the sales tax upon an estimated value of receipts, rather than on their actual sales.

The introduction of multi-point sales tax in Sierra Leone should not be difficult if well designed. With the booming economy in Sierra Leone, this tax should be able to encourage dealers to keep good records of sales which could also be used for income tax purposes.

Taxation for Financing Social Services

In the last few years, Sierra Leone has witnessed a significant transformation in the financing of social services. But at the same time, their provisions put a great strain on the limited resources available.

A sociological development is the transformation of the social framework into the most suitable way for the people to increase their mobilization into more effective participation in national life. Secondly, it is the execution of social and economic development programs. That means 100 percent participation of the people in the planning and implementing of the social programs will automatically lead to improvements of the community. The most important aspect of financing the social services is the improvement of the standards of living for the people by improving their level of living such as per capita food consumption, literacy ratio, life expectancy, etc. Therefore, these goals can be met through changes in certain social sectors comprised of education; health and nutrition; housing and urbanization; social welfare and social security; community development; and employment.

Patterns and trends in social development. An analysis of the manner in which tax revenues have been allocated to the social sectors of Sierra Leone's development is based on the quantitative data presented in Table 12. This analysis shows the actual weight of priorities in the economic development of Sierra Leone. The relative allocation of resources to the various sectors in Table 12 provides a clear indication of the relative priority that planning authorities attach to a particular sector. In this sense, it provides a much firmer basis for assessment than general statements, and gives an indication of the relative emphasis on social sectors in comparison with others.

It is interesting that the development expenditure of underdeveloped countries like Sierra Leone, unlike a planned outlay, has the advantage of reflecting more truly the operational criteria for the expenditure of available resources. A consideration of total expenditures in maintenance and development costs combined, gives a realistic picture of the sum total of national efforts being geared toward the development and improvement of a given service.

The government's outlay on all it's services account for about one-eighth of the national income, of which about one-third was allocated to the provision of social services. The greater part of the outlay on social services has gone to education, health, transportation and communications, accounting for 2-3 percent, 1-2 percent and another 1-2 percent respectively. Table 12 also shows that the revised estimate of the current expenditure for the fiscal year 1970-71, excluding public debt, changed from Le38.7 million to Le41.5 million

TABLE 12

SIERRA LEONE GOVERNMENT EXPENDITURE
1969-70 TO 1971-72
(Money Amounts in Millions of Leones)

	1969-70	1970-71		1971-72
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates
Current Expenditure	39.8	38.7	41.5	40.4
Police	2.5	2.2	3.0	2.4
Defense	2.9	2.8	3.2	2.7
External Affairs	1.5	1.6	1.6	1.6
Information and Broadcasting	1.1	1.2	1.1	1.2
Pensions and Gratuities	1.8	1.7	1.8	2.0
Education	8.7	8.8	9.2	9.7
Health	3.2	3.3	3.4	3.6
Social Welfare	1.1	1.3	1.3	1.3
Works	3.3	3.5	4.0	3.5
Transports and Communications	4.5	3.2	3.3	3.4
Agricultural and Natural Resources	1.9	1.8	1.9	1.9
Local Government Grants	0.9	0.9	1.0	0.9
Others	6.4	6.4	6.7	6.2
Public Debt Charges	12.0	7.6	8.4	10.2
Current Surplus (+)/Deficit (-)	+4.8	+4.7	+3.6	+1.1
Development Expenditure	11.7	13.2	9.8	10.1
Roads and Bridges	3.5	6.5	4.7	4.6
Provincial Water Supply	0.8	1.1	0.9	1.9
Education	1.1	1.1	0.9	1.2
Agriculture	0.6	1.3	0.9	0.7
Health	0.5	0.4	0.3	0.3
Posts and Telecommunications	0.6	0.4	0.6	0.2
Ports	2.7	0.2	0.2	Neg.
Civil Aviation	0.5	0.1	0.1	0.1
Others	1.4	2.1	1.2	1.1
Capital Receipts				
Public Corporations	0.8	0.8	0.8	0.8
Foreign Loans and Grants		4.7		4.6
Capital Account				
Surplus (+)/Deficit (-)		-7.7		-4.7
Overall Surplus (+)/Deficit (-)		-3.0		-3.6

Source: Bank of Sierra Leone, Annual Report and Statement of Accounts (England: Brown Knight and Truscott, Ltd., 1972), p. 31.

which is Le2.8 million higher than the budget estimate of Le38.7 million. Because of the decleration of the "state of emergency," the expenditures on police and defense increased by Le0.8 million and Le0.4 million respectively. However, education shows a large increase of Le0.4 million due to the increasing of teachers' salaries and the improvement in the quality of instructional materials and equipment. Also there was an increase in the expenditure on "Works" which rose by Le0.5 million. According to these figures, the public debt changed from Le7.6 million to Le8.4 million leaving the country with a surplus of Le3.6 million as against Le4.7 million proposed in the budget estimate.

The level of expenditure on health rose in the fiscal years 1970-71 and 1971-72. This was not the case with social welfare of which the expenditure remained almost constant. Under the development expenditure, which in this study refers to capital expenditure unless specifically stated that it includes re-current expenditure, both recurrent and capital expenditure on a development project are met from the so-called Development Fund and the combined outlay called development expenditure.

According to the previous table, development expenditure for the fiscal year 1970-71 was estimated to be Le13.2 million; but the revised estimate was lesser by Le3.4 million. This was because of the decline in road construction by approximately Le1.8 million, and also a decline in the agricultural sector by approximately Le0.4 million.

Table 12 also shows that the pattern and range of allocation to the various sectors vary widely, such as the acceptance by the government of a major responsibility for the development of commodity production through the S.L.P.M.B. On the other hand, allocations to the social sector are relatively large because the development of commodity output is regarded as a primary responsibility of the private sector.

Trends in the allocation of social expenditure in Sierra Leone. "Enough of feasibility studies--we want to see crops coming out of the ground."[1] These were the words of the President of Sierra Leone, Dr. Siaka Stevens, which illustrate the trends in the allocation of resources.

There has been a major shift in the allocation pattern of public capital expenditure between the major investment sectors in Sierra Leone. The government in launching its development programs, geared their investment resources to the provision of basic economic services, the development of roads, ports, and railways needed for the opening up of the interior to commercial and social contacts. In recent years, there has been a further shift of investment emphasis away from social overhead expenditure and in favor of more productive economic activities. This shift in investment emphasis and priorities for social development in Sierra Leone has been the result of a combination of factors. Although local conditions and needs have in general the main cause of shifts in investment allocations, owing to a rather urgent need for economic development in which the country has found itself in recent years, planning has been given its highest priority to the expansion of a productive economy. The consequent falling rate of growth in public revenue from taxation and to the depletion of accumulated financial reserves was a desire for the shift.

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[1]Address by Dr. Siaka Stevens, President of Sierra Leone, October, 1972.

It seems now that the country is moving toward a policy based on the principle that since the country is economically poor, public efforts should be concentrated on economies rather than social development. Under this policy, improved exportation is the answer to increased budget surpluses as stated in the section, "Taxing Exports." There will be an increase in public revenue and in social services after a favorable balance of trade is established. Indeed economies and social services must go together because without economic development, the country will lack the resources and the revenue needed to finance social expansion; and without social development, the human resources of the country will be unable to make their due contribution to economic development.

Development Patterns and Trends of the Major Social Services in Sierra Leone

The present high level of awareness in social and economic development in Sierra Leone has created a new spirit relative to the distance between the attainments in the country and more advanced countries, in ways which are sought to achieve rapid advances on all fronts of national life. These needs have raised complex problems of priorities in development and a search for sound principles for the allocation of the limited tax revenue to the various competing claims of social, economic and administrative services. The old pattern of public finance in Sierra Leone during pre-independence has become inadequate to meet the present challenge of the nation's need to better political independence with a dynamic economy and to satisfy the people's massive appetite for social services, especially for education, water and health services; therefore, the development pattern and trends of the major social services in Sierra Leone have been influenced by the prevailing social, economic and political circumstances.

Education. The last ten years in Sierra Leone have experienced phenomenal expansion in education. The magnitude and rate of growth in school enrollments have doubled from 21-24 percent in the '60's to approximately 46-49 percent in the '70's.

There is a current war declared against illiteracy targets, not only in qualitative and financial terms, but also in quantitative terms. Similarly, while the educational programs of pre-independence did not stress the relationship between the various levels of primary, secondary, technical, vocational, general and academic education, between qualitative and quantitative output, and between urban and rural needs, the current programs have emphasized the need to secure a balance between the different educational programs.

During the past five years, Sierra Leone has based it's educational programs on a comprehensive appraisal to meet the need for manpower. This has usually involved a re-orientation of the educational programs toward technical education at all levels. Most of the capital allocation for educational programs going to secondary education, followed by primary education, higher education, teacher training and technical education can be put in the following ratios: 1:9, 1:8, 1;6, 1:3 and 1:8 respectively. To conclude, Sierra Leone's educational planning investment criteria have been weighed more in favor of manpower requirements for planning fulfillment and to a lesser extent by a desire to achieve a balance between the various levels of educational structure.

Health. There is a considerable expansion in medical facilities in Sierra Leone in the form of modern hospitals, dispensaries and new equipment. In the current health programs, there has been a greater stress on preventive health services, particularly rural health center programs. Consequently, there has been a marked expansion in rural health centers and maternity and child health services. The training of Sierra Leoneans for both preventive and curative services, including local institutions, has been stressed too. Therefore, this need has influenced both the magnitude and the pattern of allocation of resources to the development of health services.

Sierra Leone allocated 21.4 percent of total investments to health services which reflect a particularly high expenditure on medical training facilities. For a long time medical facilities depended heavily on expatriate; but during the last decade, the training of Sierra Leonean doctors has been expanded. Thus, the allocation of tax revenue to hospitals and training continues to absorb a large proportion of revenue.

Housing. It is still difficult to provide a simple indicator of level and trend for housing in Sierra Leone. Those are in existence are confronted with problems. A major problem of the early housing projects was that they have been considered separately rather than in relation to the development policy of the nation as a whole, with integration of their social, economic and physical aspects. The long range economic implications were completely neglected.

Housing in Sierra Leone is accorded first to low-cost housing, and secondly to housing for public employees. In conclusion, if Sierra Leone wishes to undertake a more ambitious development plan, the government would have to raise the tax ratio across the board in order to provide funds to finance these programs. It seems that there is a positive correlation between the degree of openness and the tax ratio. It is also recognized that the economic development has been seriously hindered because of the low tax-raising capacity. Unless there is a higher degree of openness, there will not be a higher tax-raising capacity.

CHAPTER VI

SUMMARY AND RECOMMENDATIONS

Recapitulation. The foregoing study emphasizes the importance of taxation in providing revenue for the economic development of Sierra Leone. This is based on the assumption that it is desirable to raise the ratio of tax yield to monetary income. Over the period under review, 1966 to 1972, the ratio of tax yield to monetary income has remained fairly constant. There has, however, been important changes relative to the different taxes. The most important change was the decrease in the yield of import and export taxes in the fiscal year 1966-67 and partly in 1968-69 caused mainly by the uncertainty of the political atmosphere of the country. This also caused a decrease in the corporate and individual income taxes. In general, the increase in the tax yield/monetary income ratio for import taxes was more a result of an increase in the average rate of taxation than in the ratio tax base/monetary income. However, both of these elements were important to corporate taxes.

Surprisingly, the progressive individual income tax exemplifies a tax which owed an increase in the tax rate yield/monetary income primarily because of the increase in its tax base relative to income rather than to an increase in the average rate of taxation.

The elasticity of the entire tax system in Sierra Leone is strongly influenced by the responsiveness of export and import taxes because of their overwhelming importance in the tax system of the country. In the 1970's, a sharp rise in export taxes caused the entire tax system to be elastic; whereas in 1969, a substantial and sustained fall in export prices caused the export taxes to become inelastic which offset the buoyancy of some other taxes. If imports were strongly influenced by export earnings, import taxes would have been income elastic, but because of the shrinkage of imports influenced by export earnings, import taxes yielded a lower duty rate.

Individual income tax has clearly been an income elastic tax due to the increase in the tax base/monetary income ratio despite the granting of more generous personal allowances. On the other hand, corporate tax, because of its proportionate rate structure, can be income elastic only if its base expands faster relative to monetary income. With a stagnation in monetary income, the share of corporate income either remained constant or actually fell in a number of years.

It can be concluded that as national and per capita income rise, additional tax revenue may be obtained by the government of Sierra Leone either through automatic increases in revenue at the existing rate of taxation or through rate changes and an imposition of additional taxes. When an automatic increase in tax revenue becomes larger in a given period, the amount to be raised through additional measures in order to achieve a postulated marginal tax/income ratio becomes lesser and lesser. If additional revenue for economic development is obtained through automatic increase rather than through additional measures of taxation, it would mean more taxes for those whose income/expenditure have risen. This is exactly what happens if the tax system is income-elastic.

At this point in Sierra Leone, it is virtually true, as in other underdeveloped countries where all tax-payers tend to resist attempts to increase the burden of taxation and are more than willing to let the government collect increasing revenue at the existing rates of taxation. Measures for additional taxation cannot be ruled out. The government of Sierra Leone should aim at putting more reliance on an income-elastic tax structure for increasing their share of national income. In this context, the role of additional tax measures are needed in the form of increases in rates or changes in the structure of taxation to make the tax system income-elastic, keeping in view the changes which are taking place in the economy. However, this study does present the following recommendations:

(a) The import tax, export tax and corporate and individual income taxes, in the tax system of Sierra Leone must be designed to be inflation-elastic as well as income-elastic.

(b) It is extremely important to devise new measures to tax adequately those whose incomes have risen so that the loss of income tax revenue can be reduced. Non-related rental income of tax exempt institutions should be subject to taxation and also retirement compensation should be taxable.

(c) Incomes of one-man-businesses and professions should be introduced to a standard assessment. This assessment would imply prescribed minimum evaluation corresponding to the average income of categories concerned.

(d) Perhaps it would be appropriate to suggest that a series of commodity surveys should be made by the Sierra Leone Produce Marketing Board on those products in which Sierra Leone is likely to enjoy some comparative advantage. Not only would the surveys examine the international trade positions in the selected commodities, but all relevant conditions relating to the production and marketing within Sierra Leone and the prospective buyer countries would be examined. It is also considered that if such surveys could be made, the loss of export revenues to Sierra Leone could be reduced if not eliminated.

(e) A large amount of import and export revenue has been loss because of the extensive physical smuggling from Sierra Leone to Liberia and Liberia to Sierra Leone. The government should strengthen the staff in the frontiers and provide the necessary equipment to counteract this illegal traffic.

(f) Finally, a reorganization of the tax administration would lead to better enforcement of existing tax laws and increase the tax revenue.

In conclusion, taxation for economic development in Sierra Leone cannot be adequately evaluated by this study. The effort by the author has been to only scratch the surface. By the same token, it is hoped that some revelation has been made about the problems of taxation for the economic development of Sierra Leone.

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